



Kgatelopele Local Municipality
(Registration number NC086)
Financial statements
for the year ended 30 June 2016
Auditor General of South Africa

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Municipal function as set out in the Constitution. (Act no. 117 of 1996)
Full Time Mayor	KG Kgoronyane (Ward Councillors)
Ward Councillors	GP McCarthy
	YJ Kerneels
	OH Sehularo
Councillors	AS Adams
	J Baatjie
	GU Lottering
	P Mgcera
Grading of local authority	Category B
Registered Office	222 Main road Danielskuil
Telephone Number	053 384 8600
Registered address	PO Box 43 Danielskuil 8405
Accounting Officer	AM Motswana
Acting Chief Financial Officer (CFO)	E Chadinha
Bankers	First National Bank
Auditors	Auditor General of South Africa
Level of assurance	These financial statements have been audited in compliance with the applicable requirements of the Municipal Finance Management Act, 56 of 2003.
Preparer	The financial statements were independently compiled by: Makomota Investment Holdings
Enabling legislation Local Government	Municipal Finance Management Act (Act 56 of 2003) Municipal Property Rates Act (Act 6 of 2004) revised 2014 Local Government: Municipal Structure Act (Act 117 of 1998) Local Government: Municipal Systems Act (Act 32 of 2000) Division of Revenue Act (Act 1 of 2015) Value Added Tax Act Income Tax Act

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 13
Appropriation Statement	14 - 15
Accounting Policies	16 - 48
Notes to the Financial Statements	49 - 80
Appendixes:	
Appendix A: Schedule of External loans	81
Appendix B: Analysis of Property, Plant and Equipment	82

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
IDP	Integrated Development Plan
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
FMG	Finance Management Grant
PAYE	Pay AS You Earn
UIF	Unemployment Insurance Fund

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements for the year ended 30 June 2015, which are set out on pages 1 to 76 in terms of section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice. Date 31-Aug-15 I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the municipality's cash flow forecast for the year to 30 June 2016 and am satisfied that the municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Accounting Officer
AM Motswana

Daniëlskuil

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 23,739,238 (2015: deficit R 9,769,422).

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The ability of the municipality to continue as a going concern is dependent on a number of significant factors which are discussed in note 50.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interest in any contracts

5. Accounting policies

The financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

7. Auditors

Auditor General South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	7	700,801	545,743
Receivables from non-exchange transactions	8	11,801,325	6,219,620
VAT receivable	9	5,712,089	3,930,606
Receivables from exchange transactions	10	10,468,549	2,972,791
Cash and cash equivalents	11	900,071	314,060
		29,582,835	13,982,820
Non-Current Assets			
Investment property	2	53,246,642	6,192,220
Property, plant and equipment	3	217,942,942	189,928,998
Intangible assets	4	70,222	53,070
Heritage assets	5	875,000	260,000
Employee benefit asset	6	63,985	-
		272,198,791	196,434,288
Total Assets		301,781,626	210,417,108
Liabilities			
Current Liabilities			
Other financial liabilities	13	637,552	1,228,589
Payables from exchange transactions	15	23,424,087	19,682,510
Taxes and transfers payable (non-exchange)		-	-
VAT payable		-	-
Consumer deposits	16	1,370,874	1,322,146
Employee benefit obligation	6	-	145,000
Unspent conditional grants and receipts	12	2,085,528	669,713
Provisions	14	-	109,717
Bank overdraft	11	4,172,075	-
		31,690,116	23,157,675
Non-Current Liabilities			
Other financial liabilities	13	-	637,172
Employee benefit obligation	6	819,000	674,000
Provisions	14	5,392,803	5,283,086
		6,211,803	6,594,258
Total Liabilities		37,901,919	29,751,933
Net Assets		263,879,707	180,665,175
Reserves			
Revaluation reserve		51,060,065	51,060,065
Accumulated surplus		212,819,642	129,605,110
		263,879,707	180,665,175
Total Net Assets		263,879,707	180,665,175

* See Note 38

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	35,826,666	32,438,087
Interest received (trading)		101,603	168,262
Fees earned		504,048	716,822
Commissions received		2,494,106	806,711
Rental income		158,810	235,290
Other income	18	242,433	420,815
Interest received - investment	19	233,797	102,381
Total revenue from exchange transactions		39,561,463	34,888,368
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	8,007,162	5,313,377
Transfer revenue			
Government grants & subsidies	21	40,944,484	29,456,643
Public contributions and donations	22	-	1,458,483
Fines, Penalties and Forfeits		19,503	7,949
Total revenue from non-exchange transactions		48,971,149	36,236,452
Total revenue	23	88,532,612	71,124,820
Expenditure			
Employee related costs	25	(21,022,910)	(18,669,170)
Remuneration of councillors	26	(2,480,997)	(2,191,997)
Depreciation and amortisation	27	(3,279,939)	(12,858,223)
Impairment loss/ Reversal of impairments	28	-	(10,321,156)
Finance costs	29	(66,035)	(210,249)
Repairs and maintenance		(1,516,035)	(1,517,812)
Bulk purchases	33	(15,204,262)	(13,716,464)
Contracted services	31	(3,911,427)	(3,190,626)
Transfers and Subsidies	32	(3,393,538)	(3,817,934)
General Expenses	24	(12,529,969)	(14,823,746)
Total expenditure		(63,405,112)	(81,317,377)
Operating surplus (deficit)		25,127,500	(10,192,557)
(Loss) gain on disposal of assets and liabilities		(1,242,653)	100
Actuarial gains/losses	6	(145,609)	423,031
		(1,388,262)	423,131
Surplus (deficit) for the year		23,739,238	(9,769,426)

* See Note 38

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	51,060,065	198,849,826	249,909,891
Adjustments			
Correction of errors	-	(59,475,290)	(59,475,290)
Balance at 01 July 2014 as restated*	51,060,065	139,374,536	190,434,601
Changes in net assets			
Surplus for the year	-	(9,769,426)	(9,769,426)
Total changes	-	(9,769,426)	(9,769,426)
Opening balance as previously reported	51,060,065	129,605,114	180,665,179
Adjustments			
Correction of errors	-	59,475,290	59,475,290
Restated* Balance at 01 July 2015 as restated*	51,060,065	189,080,404	240,140,469
Changes in net assets			
Surplus for the year	-	23,739,238	23,739,238
Total changes	-	23,739,238	23,739,238
Balance at 30 June 2016	51,060,065	212,819,642	263,879,707

Note(s)

* See Note 38

Kgatelopele Local Municipality
Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		29,110,179	25,809,387
Grants		24,503,376	24,503,376
Interest income		233,797	102,381
Other cash item		-	1,123,437
		<u>53,847,352</u>	<u>51,538,581</u>
Payments			
Employee costs		(23,503,907)	(20,861,167)
Suppliers		(11,887,457)	(19,675,403)
Finance costs		(66,035)	(210,249)
		<u>(35,457,399)</u>	<u>(40,746,819)</u>
Net cash flows from operating activities	34	<u>18,389,953</u>	<u>10,791,762</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(22,651,295)	(9,474,871)
Proceeds from sale of property, plant and equipment	3	2,926,973	100
Purchase of other intangible assets	4	(76,886)	(256,552)
Proceeds from sale of other intangible assets	4	53,070	-
Non-cash increase assets		(999,670)	(705,084)
Net cash flows from investing activities		<u>(20,747,808)</u>	<u>(10,436,407)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(1,228,209)	(1,168,568)
Net cash flows from financing activities		<u>(1,228,209)</u>	<u>(1,168,568)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(3,586,064)</u>	<u>(813,213)</u>
Cash and cash equivalents at the beginning of the year		314,060	1,127,272
Cash and cash equivalents at the end of the year	11	<u>(3,272,004)</u>	<u>314,059</u>

* See Note 38

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	39,354,000	-	39,354,000	35,826,666	(3,527,334)	
Rental of facilities and equipment	260,000	-	260,000	-	(260,000)	
Interest received (trading)	180,000	-	180,000	101,603	(78,397)	
Agency services	960,000	-	960,000	-	(960,000)	
Licences and permits	144,000	-	144,000	-	(144,000)	
Fees earned	50,000	-	50,000	504,048	454,048	
Commissions received	-	-	-	2,494,106	2,494,106	
Rental income	-	-	-	158,810	158,810	
Other income	2,151,000	-	2,151,000	-	(2,151,000)	
Other income - (rollup)	-	-	-	242,433	242,433	
Interest received - investment	130,000	-	130,000	233,797	103,797	
Total revenue from exchange transactions	43,229,000	-	43,229,000	39,561,463	(3,667,537)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	10,218,000	-	10,218,000	8,007,162	(2,210,838)	
Transfer revenue						
Government grants & subsidies	34,624,000	8,000,000	42,624,000	40,944,484	(1,679,516)	
Fines, Penalties and Forfeits	-	-	-	19,503	19,503	
Total revenue from non-exchange transactions	44,842,000	8,000,000	52,842,000	48,971,149	(3,870,851)	
Total revenue	88,071,000	8,000,000	96,071,000	88,532,612	(7,538,388)	
Expenditure						
Personnel	(21,768,000)	(2,461,000)	(24,229,000)	(21,022,910)	3,206,090	
Remuneration of councillors	(2,085,000)	(350,000)	(2,435,000)	(2,480,997)	(45,997)	
Depreciation and amortisation	(4,230,000)	-	(4,230,000)	(3,279,939)	950,061	
Impairment loss/ Reversal of impairments	(5,800,000)	-	(5,800,000)	-	5,800,000	
Finance costs	(350,000)	120,000	(230,000)	(66,035)	163,965	
Repairs and maintenance	(5,254,000)	40,000	(5,214,000)	(1,516,035)	3,697,965	
Bulk purchases	(16,991,000)	-	(16,991,000)	(15,204,262)	1,786,738	
Contracted Services	(3,900,000)	-	(3,900,000)	(3,911,427)	(11,427)	
Transfers and Subsidies	(5,233,000)	-	(5,233,000)	(3,393,538)	1,839,462	
General Expenses	(9,754,000)	2,652,000	(7,102,000)	(12,529,969)	(5,427,969)	
Total expenditure	(75,365,000)	1,000	(75,364,000)	(63,405,112)	11,958,888	
Operating surplus	12,706,000	8,001,000	20,707,000	25,127,500	4,420,500	
Loss on disposal of assets and liabilities	-	-	-	(1,242,653)	(1,242,653)	
Actuarial gains/losses	-	-	-	(145,609)	(145,609)	
	-	-	-	(1,388,262)	(1,388,262)	

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Surplus before taxation	12,706,000	8,001,000	20,707,000	23,739,238	3,032,238	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	12,706,000	8,001,000	20,707,000	23,739,238	3,032,238	

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	700,801	700,801	
Receivables from exchange transactions	32,370,000	-	32,370,000	-	(32,370,000)	
Receivables from non-exchange transactions	-	-	-	11,801,325	11,801,325	
VAT receivable	-	-	-	5,712,089	5,712,089	
Consumer debtors	-	-	-	10,468,549	10,468,549	
Cash and cash equivalents	-	-	-	900,071	900,071	
	32,370,000	-	32,370,000	29,582,835	(2,787,165)	
Non-Current Assets						
Investment property	-	-	-	53,246,642	53,246,642	
Property, plant and equipment	-	-	-	217,942,942	217,942,942	
Intangible assets	-	-	-	70,222	70,222	
Heritage assets	-	-	-	875,000	875,000	
Employee benefit asset	-	-	-	63,985	63,985	
	-	-	-	272,198,791	272,198,791	
Total Assets	32,370,000	-	32,370,000	301,781,626	269,411,626	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	-	637,552	637,552	
Payables from exchange transactions	7,800,000	-	7,800,000	23,424,080	15,624,080	
Consumer deposits	-	-	-	1,370,874	1,370,874	
Unspent conditional grants and receipts	-	-	-	2,085,528	2,085,528	
Bank overdraft	-	-	-	4,172,075	4,172,075	
	7,800,000	-	7,800,000	31,690,109	23,890,109	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	819,000	819,000	
Provisions	-	-	-	5,392,803	5,392,803	
	-	-	-	6,211,803	6,211,803	
Total Liabilities	7,800,000	-	7,800,000	37,901,912	30,101,912	
Net Assets	24,570,000	-	24,570,000	263,879,714	239,309,714	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	-	51,060,065	51,060,065	
Accumulated surplus	24,570,000	-	24,570,000	212,819,648	188,249,648	
	-	-	-			

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Total Net Assets	24,570,000	-	24,570,000	263,879,713	239,309,713	

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2016											
Financial Performance											
Property rates	10,218,000	-	10,218,000	-		10,218,000	8,007,162		(2,210,838)	78 %	78 %
Service charges	39,354,000	-	39,354,000	-		39,354,000	35,826,666		(3,527,334)	91 %	91 %
Investment revenue	130,000	-	130,000	-		130,000	233,797		103,797	180 %	180 %
Transfers recognised - operational	17,775,786	8,000,000	25,775,786	-		25,775,786	20,908,971		(4,866,815)	81 %	118 %
Other own revenue	3,745,000	-	3,745,000	-		3,745,000	3,520,503		(224,497)	94 %	94 %
Total revenue (excluding capital transfers and contributions)	71,222,786	8,000,000	79,222,786	-		79,222,786	68,497,099		(10,725,687)	86 %	96 %
Employee costs	(21,768,000)	(2,461,000)	(24,229,000)	-	-	(24,229,000)	(21,022,910)	-	3,206,090	87 %	97 %
Remuneration of councillors	(2,085,000)	(350,000)	(2,435,000)	-	-	(2,435,000)	(2,480,997)	-	(45,997)	102 %	119 %
Debt impairment	(5,800,000)	-	(5,800,000)			(5,800,000)	-	-	5,800,000	- %	- %
Depreciation and asset impairment	(4,230,000)	-	(4,230,000)			(4,230,000)	(3,279,939)	-	950,061	78 %	78 %
Finance charges	(350,000)	120,000	(230,000)	-	-	(230,000)	(66,035)	-	163,965	29 %	19 %
Bulk purchases	(16,991,000)	-	(16,991,000)	-	-	(16,991,000)	(15,204,262)	-	1,786,738	89 %	89 %
Transfers and grants	(5,233,000)	-	(5,233,000)	-	-	(5,233,000)	(3,393,538)	-	1,839,462	65 %	65 %
Other expenditure	(18,908,000)	2,692,000	(16,216,000)	-	-	(16,216,000)	(19,345,693)	-	(3,129,693)	119 %	102 %
Total expenditure	(75,365,000)	1,000	(75,364,000)	-	-	(75,364,000)	(64,793,374)	-	10,570,626	86 %	86 %
Surplus/(Deficit)	(4,142,214)	8,001,000	3,858,786	-		3,858,786	3,703,725		(155,061)	96 %	(89)%

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	16,848,214	-	16,848,214	-		16,848,214	20,035,513		3,187,299	119 %	119 %
Surplus (Deficit) after capital transfers and contributions	12,706,000	8,001,000	20,707,000	-		20,707,000	23,739,238		3,032,238	115 %	187 %
Surplus/(Deficit) for the year	12,706,000	8,001,000	20,707,000	-		20,707,000	23,739,238		3,032,238	115 %	187 %

Capital expenditure and funds sources

Total capital expenditure	-	-	-	-		-	6,782,862		6,782,862	DIV/0 %	DIV/0 %
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Cash flows

Net cash from (used) operating	-	-	-	-		-	18,389,953		18,389,953	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	-		-	(20,747,808)		(20,747,808)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	-		-	(1,228,209)		(1,228,209)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	-	-	-	-		-	(3,586,064)		(3,586,064)	DIV/0 %	DIV/0 %
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	314,060		314,060	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	-	-	-	-		-	(3,272,004)		3,272,004	DIV/0 %	DIV/0 %

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions and contingent liabilities

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the prime interest rate plus 2% to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Budget Information

The annual budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies adopted by Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the financial statements, firstly stating reasons for overall growth or decline in the budget, and secondly, motivating overspending or underspending on line items.

The annual budget figures included in the financial statements are for the Municipality. These figures are those approved by Council both at beginning and during the year following a period of consultation with the public as part of the IDP.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Comparative Information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustments is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the annual financial statements. Materiality depends on the nature or amount of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information items, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not corrolate with the auditor's materiality.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.3 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings and Land and Buildings classified as Community assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	5 - 15 years
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 - 20 years
Office equipment	Straight line	3 - 5 years
IT equipment	Straight line	3 - 5 years
Computer software	Straight line	3 - 5 years
• Electricity		10-50 years
• Roads		5 - 80 years
• Sewerage		10 - 60 years
• Water		20 - 100 years
Community	Straight line	20 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Accounting Policies

1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Accounting Policies

1.4 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Licenses and franchises	1 year
Computer software, other	3 years

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Accounting Policies

1.6 Financial instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Accounting Policies

1.6 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transaction	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost

The municipality has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Accounting Policies

1.6 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.6 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.7 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Accounting Policies

1.11 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.11 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Rates, including collection charges and penalties interest

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Detailed disclosures are made in note 43 to the annual financial statements as required by the Municipal Finance Management Act (Act No.56 of 2003)

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Detailed disclosures are made in note 44 to the annual financial statements as required by the Municipal Finance Management Act (Act No.56 of 2003)

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) the MFMA, and has not been condoned in terms of section 170
- (b) the Municipal System Act, and which has not been condoned in term of that act;
- (c) the Public Office-Bearers Act, 1998 (Act No.20 of 1998) and the requirements of the supply chain management policy of the municipality in accordance with the municipality's by-laws giving effect to such policy and which has not been condoned in terms of such policy or by-law.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.20 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.23 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 Value-Added Tax (VAT)

The municipality applies the payment basis for VAT purposes as per the Value-Added Tax Act. Output VAT is payable as and when the purchase consideration are received and input will be claimed as and when payment is made.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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2. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	53,246,642	-	53,246,642	6,192,220	-	6,192,220

Reconciliation of investment property - 2016

	Opening balance	Difference	Fair value adjustments	Total
Investment property	6,192,220	41,668,468	5,385,954	53,246,642

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	6,192,220	6,192,220

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

3. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	6,356,834	-	6,356,834	42,906,700	-	42,906,700
Buildings	15,095,938	(4,759,432)	10,336,506	20,354,135	(3,451,849)	16,902,286
Infrastructure	293,671,746	(119,869,598)	173,802,148	218,306,217	(103,270,039)	115,036,178
Community	4,318,931	(1,504,263)	2,814,668	11,255,386	(5,239,089)	6,016,297
Other property, plant and equipment	6,170,304	(4,650,794)	1,519,510	7,572,404	(5,672,824)	1,899,580
Work in progress	23,113,276	-	23,113,276	7,167,957	-	7,167,957
Total	348,727,029	(130,784,087)	217,942,942	307,562,799	(117,633,801)	189,928,998

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land	42,906,700	277,333	-	(36,827,199)	-	6,356,834
Buildings	16,902,286	234,606	-	(6,183,935)	(616,451)	10,336,506
Infrastructure	115,036,178	5,736,550	(4,169,626)	59,855,870	(2,656,824)	173,802,148
Community	6,016,297	-	-	-	(3,201,629)	2,814,668
Other property, plant and equipment	1,899,580	457,487	-	-	(837,557)	1,519,510
Work in progress	7,167,957	15,945,319	-	-	-	23,113,276
	189,928,998	22,651,295	(4,169,626)	16,844,736	(7,312,461)	217,942,942

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	42,616,800	289,900	-	-	-	-	42,906,700
Buildings	18,524,197	346,500	-	-	(763,506)	(1,204,905)	16,902,286
Infrastructure	108,016,784	-	17,068,550	525,507	(10,574,663)	-	115,036,178
Community	6,472,919	-	-	-	(456,622)	-	6,016,297
Other property, plant and equipment	2,309,972	247,635	-	179,575	(837,602)	-	1,899,580
Work in progress	15,645,671	8,590,836	(17,068,550)	-	-	-	7,167,957
	193,586,343	9,474,871	-	705,082	(12,632,393)	(1,204,905)	189,928,998

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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4. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Licenses	76,886	(6,664)	70,222	323,602	(270,532)	53,070

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Licenses	53,070	76,886	(53,070)	(6,664)	70,222

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Licenses	22,350	256,552	(225,832)	53,070

5. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	875,000	-	875,000	260,000	-	260,000

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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6. Employee benefit obligations

Long Service Awards Liability

The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Long service benefits are awarded in the form of leave days and a percentage of salary. We have converted the awarded leave days into a percentage of the employee's annual salary. The conversion is based on a 250 working day year and therefore the benefits awarded can be expressed as follows:

Completed Years of service	Long Service Leave Award (Working Days)	Long Service Bonus Award (% of Annual Salary)	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	10	3%	7%	$(10/250+3\%)$
15	10	4%	8%	$(10/250+4\%)$
20	15	5%	11%	$(15/250+5\%)$
25,30,35,40 and 45	15	6%	12%	$(15/250+6\%)$

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables:

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable	Assumed Value 30-06-2016 (Current Valuation)	Assumed Value 30-06-2015 (Preceding valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
6. Employee benefit obligations (continued)		
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1
Net Effective Discount Rate	Yield Curve Based**	Yield Curve Based**

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

We use the nominal and real zero curves as at 30 June 2016 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

** The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of 6%. As at the time of this valuation South African Municipal salaries' negotiations were still in progress. Therefore, for the purpose of performing this valuation, we have assumed that the previous year's increase rate of 6.79% is still relevant in this year's valuation. The next salary increase was assumed to take place on 01 July 2017.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20-24	5%
25-29	4%
30-34	3%
35-39	2%
40-44	1%
45 and over	0%

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
6. Employee benefit obligations (continued)		
Age	Withdrawal Rate Males	Withdrawal Rate Females
20-24	16%	24%
25-29	12%	18%
30-34	10%	15%
35-39	8%	10%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%
60+	0	-

Total eligible employees	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20-29	18	165,191	1.83	2,689
30-39	41	144,576	5.04	9,955
40-49	20	157,014	10.08	20,543
50-59	15	148,943	17.91	18,045
60+	3	112,272	14.30	-
	97	150,642	7.65	11,733

Changes in the present value long service obligation are as follows:

Opening balance	819,000	1,047,000
Net expense recognised in the statement of financial performance	319,000	(228,000)
	1,138,000	819,000

Net expense recognised in the statement of financial performance

Current service cost	113,000	147,000
Interest cost	77,000	86,000
Actuarial (gains) losses	145,609	(423,031)
Benefits paid	(16,609)	(37,969)
	319,000	(228,000)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	145,609	(423,031)
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Sensitivity Analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation;

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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6. Employee benefit obligations (continued)

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	1,234,000	1,143,000	1,064,000
Current Service Cost	173,000	151,000	134,000
Interest Cost	129,000	118,000	110,000

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	1,064,000	1,143,000	1,231,000
Current Service Cost	138,000	151,000	167,000
Interest Cost	110,000	118,000	128,000
	1,312,000	1,412,000	1,526,000

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, a municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

We use the nominal and real zero curves as at **30 June 2016** supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of **6%**. The next salary increase was assumed to take place on 01 July 2017

Changes in the value of the obligation

	Current Valuation Date 30-06-2016	1 Year Following the Valuation Date	2 Years Following the Valuation Date	3 Years Following the Valuation Date
PV of the obligation as at the previous valuation date	819,000	1,143,000	1,328,000	1,470,687
Current Service Cost	113,000	151,000	154,287	158,977
Interest Cost	77,000	118,000	132,400	143,179
Benefits Paid	(52,000)	(84,000)	(144,000)	(217,000)
Actuarial Loss / (Gain)	186,000	-	-	-
	1,143,000	1,328,000	1,470,687	1,555,843

Amounts recognised in the balance sheet and the income statement:

	Current Valuation Date 30-06-2016	1 Year Following the Valuation Date	2 Year Following the Valuation Date	3Year Following the Valuation Date
Liability recognised in the balance sheet	1,143,000	1,328,000	1,470,687	1,555,844
Current Service Cost in the income statement	113,000	151,000	154,287	158,977
Interest Cost in the income statement	77,000	118,000	132,400	143,179
Actuarial Loss / (Gain) recognised in Other Comprehensive Income	186,000	-	-	-

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
7. Inventories		
Maintenance materials and Stationary	352,624	255,799
Water	348,177	289,944
	700,801	545,743
8. Receivables from non-exchange transactions		
Impairment - Other Taxes	(5,569,232)	(5,569,232)
Rates	17,370,557	11,788,852
	11,801,325	6,219,620
9. VAT receivable		
VAT	5,712,089	3,930,606
VAT is receivable/payable on the cash basis. VAT is paid over to SARS once payment is received from debtors and claimed from SARS once suppliers have been paid. This amount is the net effect of the municipalities control accounts for debtors and creditors for which payment were received and payments made to suppliers.		
10. Consumer debtors		
Gross balances		
Electricity	5,573,755	3,593,121
Water	13,640,169	11,477,703
Sewerage	5,532,388	4,385,034
Refuse	5,799,090	4,563,217
Housing rental	11,031	9,232
Sundries & VAT	5,089,761	4,122,129
	35,646,194	28,150,436
Less: Allowance for impairment		
Electricity	(2,558,375)	(2,558,375)
Water	(10,688,930)	(10,688,930)
Sewerage	(3,996,443)	(3,996,443)
Refuse	(3,995,664)	(3,995,664)
Housing rental	(4,305)	(4,305)
Sundries & VAT	(3,933,928)	(3,933,928)
	(25,177,645)	(25,177,645)
Net balance		
Electricity	3,015,380	1,034,746
Water	2,951,239	788,773
Sewerage	1,535,945	388,591
Refuse	1,803,426	567,553
Housing rental	6,726	4,927
Sundries & VAT	1,155,833	188,201
	10,468,549	2,972,791

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
10. Consumer debtors (continued)		
Rates		
Current (0 -30 days)	-	494,963
31 - 60 days	-	363,016
61 - 90 days	-	299,193
91 - 120 days	-	192,997
121 - 365 days	-	4,816,847
	6,167,016	6,167,016
Electricity		
Current (0 -30 days)	3,015,380	523,495
31 - 60 days	-	264,456
61 - 90 days	-	114,154
91 - 120 days	-	45,051
121 - 365 days	-	87,590
	3,015,380	1,034,746
Water		
Current (0 -30 days)	2,951,239	528,812
31 - 60 days	-	123,955
61 - 90 days	-	54,026
91 - 120 days	-	19,268
121 - 365 days	-	62,712
	2,951,239	788,773
Sewerage		
Current (0 -30 days)	1,535,945	299,490
31 - 60 days	-	46,998
61 - 90 days	-	18,352
91 - 120 days	-	5,836
121 - 365 days	-	17,915
	1,535,945	388,591
Refuse		
Current (0 -30 days)	1,803,426	401,309
31 - 60 days	-	82,314
61 - 90 days	-	33,743
91 - 120 days	-	7,715
121 - 365 days	-	42,472
	1,803,426	567,553
Housing rental		
Current (0 -30 days)	6,726	4,927
Sundries & VAT		
Current (0 -30 days)	1,155,833	154,773
31 - 60 days	-	4,140
61 - 90 days	-	1,124
91 - 120 days	-	6,284
121 - 365 days	-	21,880
	1,155,833	188,201

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
10. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	-	5,028,492
31 - 60 days	-	1,569,491
61 - 90 days	-	1,178,569
91 - 120 days	-	1,190,614
121 - 365 days	-	22,524,841
	-	31,492,007
Less: Allowance for impairment	-	(28,396,501)
	-	3,095,506
Industrial/ commercial		
Current (0 -30 days)	-	753,459
31 - 60 days	-	383,972
61 - 90 days	-	266,263
91 - 120 days	-	182,074
121 - 365 days	-	1,775,987
	-	3,361,755
Less: Allowance for impairment	-	(2,350,377)
	-	1,011,378
National and provincial government		
Current (0 -30 days)	-	234,482
31 - 60 days	-	207,010
61 - 90 days	-	203,621
91 - 120 days	-	185,167
121 - 365 days	-	4,938,310
	-	5,768,590
Total		
Current (0 -30 days)	10,468,549	6,016,433
31 - 60 days	-	2,160,473
61 - 90 days	-	1,648,453
91 - 120 days	-	1,557,855
121 - 365 days	-	29,239,138
	10,468,549	40,622,352
Less: Allowance for impairment	-	(37,649,561)
	10,468,549	2,972,791
Less: Allowance for impairment		
Current (0 -30 days)	(25,177,645)	(25,177,645)
Total debtor past due but not impaired		
61 - 90 days	-	203,621
91 - 120 days	-	185,167
121 - 365 days	-	4,938,310
	-	5,327,098

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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10. Consumer debtors (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(25,177,645)	(17,224,235)
Contributions to allowance	-	(7,953,410)
Reversal of allowance	-	-
	(25,177,645)	(25,177,645)

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	-	312,243
Short-term deposits	900,071	1,817
Bank overdraft	(4,172,075)	-
	(3,272,004)	314,060
Current assets	900,071	314,060
Current liabilities	(4,172,075)	-
	(3,272,004)	314,060

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - Call account - 62021476313	59,570	945	1,162,874	59,570	945	1,162,874
First National Bank - Call account - 62289233547	432,951	983	-	432,951	983	-
First National Bank - Cheque account - 52003878794	361,069	312,243	954,382	-	312,243	(35,492)
First National Bank - 62076024571	-	(144)	(144)	-	(144)	(144)
First National Bank - 62067443582	-	33	33	-	33	33
Total	853,590	314,060	2,117,145	492,521	314,060	1,127,271

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG	4,321	-
Housing Grant	66,792	66,792
FMG Grant	314,777	-
MSIG Grant	699,353	-
Library Grant	519,173	601,576
EPWP Grant	79,810	1,345
MIG EPWP	401,302	-
	2,085,528	669,713

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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12. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	669,713	1,880,356
Additions during the year	22,069,000	12,152,000
Income recognition during the year	(20,653,185)	(13,362,643)
	2,085,528	669,713

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. See note 22 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

13. Other financial liabilities

At amortised cost

DBSA loan	637,552	1,865,761
Terms and conditions		

Non-current liabilities

At amortised cost	-	637,172
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Current liabilities

At amortised cost	637,552	1,228,589
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Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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14. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Total
Environmental rehabilitation	5,392,803	5,392,803

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	5,308,812	83,991	5,392,803
Non-current liabilities		5,392,803	5,283,086
Current liabilities		-	109,717
		5,392,803	5,392,803

Land Fill Site - Rehabilitation

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of National Environmental Management: Waste Act, Act 59 of 2008.

The expected time of rehabilitation is 10 years from now in 2025.

The following key assumptions used;

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site. As such a discount rate of 8.83% p.a has been used. The was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 30 June 2015.

The consumer price inflation of 6.69% p.a is obtained from the differential between the long term market yields on the indexed bond (the R197 at 1.68% p.a) consistent with the estimated term of the liabilities and those of nominal bond (the R 186 at 8.45% p.a).

Key Financial assumption

Discount rate	8,83%
Consumer price inflation	6,66%
Net discount rate	2,03%

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
15. Payables from exchange transactions		
Trade payables	19,806,361	16,971,448
Prepaid electricity sold not utilized	52,525	52,525
Accrued leave pay	1,282,634	1,016,063
Accrued bonus	725,075	645,476
Unallocated receipts	1,458,399	488,335
Debtors with credit balance	99,093	508,663
	23,424,087	19,682,510
16. Consumer deposits		
Electricity	1,370,874	427,406
Water	-	882,237
Refuse	-	5,759
Sewerage	-	6,744
	1,370,874	1,322,146
17. Service charges		
Sale of electricity	18,265,389	15,116,670
Sale of water	7,317,264	7,302,109
Solid waste	5,884,797	5,829,137
Sewerage and sanitation charges	4,359,216	4,190,171
	35,826,666	32,438,087
18. Other income		
General income	241,522	338,361
Insurance claims	-	3,325
Fines on bridging of meters	911	79,129
	242,433	420,815
19. Investment revenue		
Bank	233,797	102,381
20. Property rates		
Rates received		
Residential	5,172,935	5,026,499
Industrial	859,262	808,190
State	225,813	212,550
Rezoning	2,286,558	224,611
Industrial	124,935	117,484
Mining	2,982,871	2,804,977
Less: Income forgone	(3,645,212)	(3,880,934)
	8,007,162	5,313,377

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
21. Government grants and subsidies		
Operating grants		
Equitable share	17,104,000	16,094,000
FMG	1,560,223	1,800,000
MSIG	230,647	934,000
Library	2,014,101	397,542
	20,908,971	19,225,542
Capital grants		
MIG	15,926,679	9,232,446
Library Grant	3,187,299	-
EPWP	921,535	998,655
	20,035,513	10,231,101
	40,944,484	29,456,643

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	-	14,115,742
Unconditional grants received	-	16,094,000
	-	30,209,742

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	1,389,446
Current-year receipts	15,931,000	7,843,000
Conditions met - transferred to revenue	(15,926,679)	(9,232,446)
	4,321	-

Conditions still to be met - remain liabilities (see note 12).

Housing Grant

Balance unspent at beginning of year	66,792	66,792
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Conditions still to be met - remain liabilities (see note 12).

FMG

Current-year receipts	1,875,000	1,800,000
Conditions met - transferred to revenue	(1,560,223)	(1,800,000)
	314,777	-

Conditions still to be met - remain liabilities (see note 12).

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
21. Government grants and subsidies (continued)		
Municipal System Improvement Grant		
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(230,647)	(934,000)
	699,353	-
Conditions still to be met - remain liabilities (see note 12).		
Library Grant		
Balance unspent at beginning of year	601,576	424,119
Current-year receipts	833,000	575,000
Conditions met - transferred to revenue	(915,403)	(397,543)
	519,173	601,576
Conditions still to be met - remain liabilities (see note 12).		
EPWP		
Balance unspent at beginning of year	1,345	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(921,535)	(998,655)
	79,810	1,345
Conditions still to be met - remain liabilities (see note 12).		
22. Public contributions and donations		
Public contributions and donations	-	1,458,483
Donations recieved for the 2014/15 financial year as part of the social labour plans of the mining companies in Danielskuil. The donation was in respect of the upgrading of the electricity network of the municipality.		
Land recieved from government indentended for re-distribubtion and development of the local communities.		
23. Revenue		
Service charges	35,826,666	32,438,087
Interest received (trading)	101,603	168,262
Fees earned	504,048	716,822
Commissions received	2,494,106	806,711
Rental income	158,810	235,290
Other income	242,433	420,815
Interest received - investment	233,797	102,381
Property rates	8,007,162	5,313,377
Government grants & subsidies	40,944,484	29,456,643
Public contributions and donations	-	1,458,483
Fines, Penalties and Forfeits	19,503	7,949
	88,532,612	71,124,820

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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23. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	35,826,666	32,438,087
Interest received (trading)	101,603	168,262
Fees earned	504,048	716,822
Commissions received	2,494,106	806,711
Rental income	158,810	235,290
Other income	242,433	420,815
Interest received - investment	233,797	102,381
	39,561,463	34,888,368

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	8,007,162	5,313,377
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Transfer revenue

Government grants & subsidies	40,944,484	29,456,643
Public contributions and donations	-	1,458,483
Fines, Penalties and Forfeits	19,503	7,949
	48,971,149	36,236,452

24. General expenses

Advertising	54,816	93,211
Assets expensed	75,098	96,951
Auditors remuneration	1,105,485	2,176,399
Bank charges	200,711	129,167
Cleaning and Chemicals	1,091,071	841,868
Commission paid	1,363,566	829,744
Community development and training	4,349	10,423
Conferences and seminars	97,027	7,500
Consulting and professional fees	1,055,000	6,146,095
Entertainment	12,270	24,425
Fuel and oil	561,545	627,824
Hire	1,163	24,394
IT expenses	540,627	255,499
Insurance	942,199	202,093
Interest and Penalties	1,043,639	400,057
Material	7,526	-
Medical Examinations Employees	1,747	11,451
Membership Fees	505,480	462,498
Postage and courier	211,238	185,987
Printing and stationery	78,192	98,029
Promotions	8,035	-
Protective clothing	229,040	17,726
Research and development costs	1,385,080	-
Security Services	705,285	667,231
Telephone Expenses	410,997	258,004
Training	3,587	201,580
Travel - local	658,331	956,709
Workman Compensation	176,865	98,881
	12,529,969	14,823,746

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
25. Employee related costs		
Basic	14,455,567	12,875,100
Bonus	976,709	772,567
Medical aid - company contributions	941,100	804,302
UIF	119,203	111,521
WCA	350	73,004
SDL	173,101	139,216
Bargaining Council	8,426	7,532
Leave	447,551	283,086
Group Insurance	10,387	10,673
Standby Allowances	156,742	112,626
Defined contribution plans	2,058,568	1,759,390
Travel, motor car, accommodation, subsistence and other allowances	130,612	598,522
Overtime payments	895,416	780,805
Long service bonus provision	190,000	233,001
Acting allowances	419,065	42,894
Housing allowance	31,200	60,031
Cellphone allowance	8,913	4,900
	21,022,910	18,669,170
Long service bonus provision include the following		
Interest	77,000	86,000
Current service cost	113,000	147,000
	190,000	233,000

The above Employee related cost includes remuneration of Section 57 managers as presented below.

Remuneration of Municipal Manager

Annual Remuneration	849,996	667,527
Car Allowance	186,360	186,360
Contributions to UIF, Medical and Pension Funds	9,348	9,450
Subsistence	20,678	-
	1,066,382	863,337

Remuneration of Chief Financial Officer

Annual Remuneration	212,703	450,000
Car Allowance	62,500	150,000
Contributions to UIF, Medical and Pension Funds	3,256	1,785
Subsistence	1,033	-
Leave	36,000	-
	315,492	601,785

Remuneration of Technical Manager

Annual Remuneration	258,864	383,280
Travel Allowance	70,000	120,000
Housing	56,420	96,720
Contributions to UIF, Medical and Pension Funds	5,529	5,776
Leave	37,276	-
Acting allowance	40,222	-
Subsistence	16,052	-

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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25. Employee related costs (continued)

484,363	605,776
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Remuneration of Acting Chief Financial Officer

Acting Allowance	227,744	-
	227,744	-

26. Remuneration of councillors

Mayor	756,672	679,445
Councillors	1,724,325	1,512,552
	2,480,997	2,191,997

In-kind benefits

The Mayor, is full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties and Council owned laptop. Councilors are also provided with laptops

The Mayor has a fulltime driver for official duties, at cost to company.

Councillor remuneration is in line with upper limits that is Gazetted and the framework envisaged in section 219 of the Constitution.

27. Depreciation and amortisation

Property, plant and equipment	3,279,939	12,632,391
Intangible assets	-	225,832
	3,279,939	12,858,223

28. Impairment of assets

Impairments

Property, plant and equipment	-	1,204,905
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Arson Incident happened during the month of April 2015, and a portion of the building was destroyed in the fire. The recoverable amount of the asset was based on its fair value less costs to sell.

Trade and other receivables	-	9,116,251
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If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

-	10,321,156
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The main classes of assets affected by impairment losses are:

Service charges presented in note 20.

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Consumer debtors are defaulting on paying for municipal services delivered.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
29. Finance costs		
Current borrowings	66,035	126,258
Fair value adjustments: Notional interest	-	83,991
	66,035	210,249

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
30. Auditors' remuneration		
Fees	1,105,485	2,176,399
31. Contracted services		
Other Contractors	3,911,427	3,190,626
32. Grants and subsidies paid		
Other subsidies		
Build 100 Houses	861,698	396,586
Municipal Systems Improvement Grant (MSIG)	228,054	724,994
Finance Management Grant (FMG)	1,390,478	1,758,916
Potholes EPWP Projects	913,308	937,438
	3,393,538	3,817,934
33. Bulk purchases		
Electricity	15,204,262	13,716,464
34. Cash generated from operations		
Surplus (deficit)	23,739,238	(9,769,426)
Adjustments for:		
Depreciation and amortisation	3,279,939	12,858,223
Gain (loss) on sale of assets and liabilities	1,242,653	(100)
Fair value adjustments	-	-
Interest income	-	-
Finance costs	-	-
Impairment deficit	-	10,321,156
Movements in retirement benefit assets and liabilities	(63,985)	(228,000)
Movements in provisions	-	83,991
Changes in working capital:		
Inventories	(155,058)	(81,286)
Receivables from exchange transactions	-	(9,116,251)
Consumer debtors	(7,495,758)	(1,346,112)
Other receivables from non-exchange transactions	(5,581,705)	(1,157,778)
Payables from exchange transactions	3,741,569	9,052,185
VAT	(1,781,483)	382,848
Unspent conditional grants and receipts	1,415,815	(1,210,643)
Consumer deposits	48,728	1,002,955
	18,389,953	10,791,762

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
35. Commitments		
Authorised expenditure		
Already contracted for but not provided for		
• Capital	8,301,804	27,657,385
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	81,445,321
Total capital commitments		
Already contracted for but not provided for	8,301,804	27,657,385
Not yet contracted for and authorised by accounting officer	-	81,445,321
	8,301,804	109,102,706

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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36. Contingencies

Labour dispute

Claim against Kgatelopele Local Municipality for re-instatement, where by the applicant claimed re-instatement. The matter was dismissed by the labour court on 06 June 20106.

Contingent liability - Unlicensed landfill sites

The municipality managed landfill site without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed.

Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community.

Description - 2016	Estimated Value	Legal fees/ Interest	Total Estimated Cost to Municipality
Plaintiff vs Kgatelopele Local Municipality	50,000	10,000	60,000
Plaintiff vs Kgatelopele Local Municipality	50,000	10,000	60,000
The Plaintiff has sued the municipality for bridge of contract, as services was terminated on the basis of services not rendered to the municipality. Service provider was appointed on a 50% basis of amount received from VAT recovery. The consultants has not recover any amount outstanding.	800,000	200,000	1,000,000
Plaintiff is suing the municipality for work done on the electrification of a area in Danielskuil. Municipality is of the opinion that no supply chain process was followed and no evidence of work done could be traced.	645,192	161,298	806,490
SARS	84,379	21,095	105,474
Preliminary VAT 201 assessment audit for 2010 untill 2014, resulted in the municipality owing SARS, final assessment still outstanding	5,744,739	574,474	6,319,213
	7,374,310	976,867	8,351,177

Description - 2015	Estimated Value	Legal fees/ Interest	Total Estimated Cost to Municipality
Labour Case (Plaintiff is suing the municipality for unfair labour practise. The plaintiff was acting as CFO for a period of 18 months, but was not appointed in the position when it became available)	500,000	125,000	625,000
Gerhardus Jacobus Herbst	17,636	4,409	22,045
Claim against the municipality for damages to property due to faulty electricity networks			
The Plaintiff has sued the municipality for bridge of contract, as services was terminated on the basis of services not rendered to the municipality. Service provider was appointed on a 50% basis of amount received from VAT recovery. The consultants has not recover any amount outstanding.	800,000	200,000	1,000,000
Plaintiff is suing the municipality for work done on the electrification of a area in Danielskuil. Municipality is of the opinion that no supply chain process was followed and no evidence of work done could be traced.	560,000	161,298	721,298
SARS	84,379	21,095	105,474
Preliminary VAT 201 assessment audit for 2010 untill 2014, resulted in the municipality owing SARS, final assessment still outstanding	5,744,739	574,474	6,319,213
	7,706,754	1,086,276	8,793,030

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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37. Related parties

Relationships

Accounting Officer

Members of key management

Refer to accounting officer's report note

Name

Name

The above mentioned councilors and managers has active business during the financial year under review, however did not trade with the municipality either directly or indirectly.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

38. Prior period errors

40.1) Prior period error - Correction of investment property

During the period under review it was noted that investment property was misstated 30 June 2015 as a result of the valuation method applied as there was no fair value adjustment to the property value from the 2013 valuation roll. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Increase in fair value of Investment property	-	43,867,123
Increase in opening accumulated surplus	-	(41,668,468)
	-	-

Statement of financial performance

Increase in fair value adjustment	-	(2,198,655)
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40.2 Prior period error - Correction of intangibles assets

During the period under review it was noted that the licences fees were capitalised to intangible assets incorrectly. The licence fees should have been expensed in prior periods. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

	-	-
Decrease in cost of intangible assets	-	(323,602)
Decrease in accumulating amortisation of intangible assets	-	44,700
Decrease in opening accumulated surplus	-	53,070

Statement of Financial performance:

Decrease in accumulating amortisation of intangible assets	-	225,831
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40.3 Prior period error - Correction of Heritage assets

During the period under review it was discovered that not all historical heritage assets was included as assets. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Increase in Heritage assets cost	-	615,000
Increase in opening accumulating surplus	-	(615,000)
	-	-

40.4 Prior period error - Correction of bulk purchase, creditors and VAT

During the period under review it was noted that the year end bulk purchase was misstated as it included payments made to Eskom at 30 June 2015. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Decrease in payables from exchange transactions	-	2,088,708
Increase in opening accumulating surplus	-	(1,732,801)
Decrease in VAT input/receivable	-	(355,907)
	-	-

Statement of Financial performance:

Decrease in bulk purchases for the year	-	(2,088,708)
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Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

38. Prior period errors (continued)

40.5 Prior period error - Correction of Community assets

During the period under review it was noted that the Community assets register was overstated at 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Decrease in cost of community assets	-	(6,936,455)
Decrease in accumulating depreciation of community assets	-	3,499,925
Decrease in opening accumulated surplus	-	3,201,629

-

Statement of Financial performance:

Decrease in depreciation	-	234,901
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40.6 Prior period error - Correction of Buildings

During the period under review it was noted that the buildings assets register was overstated at 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Decrease in cost of buildings	-	(5,392,564)
Increase in accumulating depreciation of buildings	-	(104,699)
Decrease in opening accumulated surplus	-	5,346,816

- (150,447)

Statement of Financial performance:

Decrease in depreciation	-	150,447
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40.7 Prior period error - Correction of Land

During the period under review it was noted that the Land assets register was overstated at 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Decrease in opening accumulated surplus or deficit	-	36,827,199
Decrease in cost of buildings	-	(36,827,199)

- -

40.8 Prior period error - Correction of Other assets

During the period under review it was noted that the Other assets register was overstated at 30 June 2014. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Decrease in cost of other assets	-	(1,840,582)
Decrease in additions of others assets	-	(19,005)
Decrease in accumulating depreciation of other assets	-	523,891
Decrease in opening accumulated surplus	-	(837,556)

-

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

38. Prior period errors (continued)

Statement of Financial performance:

Decrease in depreciation	-	498,139
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39. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management plans are developed and monitored to ensure council's policies and systems are reviewed regularly to reflect changes in the municipality's operation.

The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The management of the municipality have concluded that the existence of a combination of circumstances represent a material uncertainty that casts significant doubt about the municipalities ability to continue as a going concern. nevertheless after making enquiries about considering the uncertainties described below, the management of the municipality have a reasonable expectation that the municipality will have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the annual financial statements of the municipality.

The following analysis supports the going concern assumption:

While the management of the municipality have instituted measures to preserve cash, control overheads, increase revenue and secure additional funding the following circumstances create material uncertainties over the future trading results and cash flows.

- The current liabilities exceed its current assets.
- The current economic environment is challenging and the entity has reported significant operating loss for the year.
- Management considers that the outlook present significant challenges in terms of enhancing the quality earnings, increaseing revenue volumes and well controlling input costs.
- The operational grants funding does not cover the entity's operating costs and without increasing the quality of revenue from operations continued deficits are likely.

Mitigating factors

- Long term loan is maturing in the next 6 months and will free up cashflow and opens up funding options.
- Investments is covering the unspent grants at year and ensure no funds are committed out of the 2016/17 budget.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

41. Events after the reporting date

No significant events after the reporting date were identified.

42. Unauthorised expenditure

Opening balance	34,963,618	19,450,450
Unauthorised expenditure current year	-	15,513,168

43. Fruitless and wasteful expenditure

Interest and penalties on late payments	1,050,402	336,564
Interest and penalties on DBSA loan account	-	831
Interest and penalties relating to VAT assessments	-	9,033
	1,050,402	346,428

44. Irregular expenditure

Opening balance	28,348,160	27,105,389
Add: Irregular Expenditure - current year	622,635	1,242,771
	28,970,795	28,348,160

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

44. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Procurement of goods and services where no contract is in place with the service provider	622,635	989,748
Tender process not followed	-	253,023
	622,635	1,242,771

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	11,000
Current year subscription / fee	500,000	500,000
Amount paid - current year	(500,000)	(511,000)
	-	-

Distribution losses - Water

Units loss in distribution	31 302 KI	107 126 KI
Unit price per KI	4.37	3,64
	136 810	290 002

Distribution losses - Electricity

Units loss in distribution	6232 754	5 627 026
Unit price per Kw	1.42	1,72
	8 762 899	4 309 830

Water losses were 14% comprising of bulk water reticulation losses. The percentages unaccounted for is water distributed from the treatment plant (reservoirs) topoints of conection. Lossess can mainly be attributed to burst and leaks in distrubution networksdue to delapidated infrastructure,and the inefficiencies in the metering system.

Electricity Losses were 29% consisting out of technical and non-technical losses. The technical losses of electricity are inherent to the supply of electricity via lines,conditions/ statusand aging of electricity networks, weather conditions and loads on the system. Non- technical losses is mainly due to theft, cable bridging, delapidated pre-paid meters.

Audit fees

Opening balance	4,738,967	3,303,042
Current year subscription / fee	1,437,721	2,176,399
Amount paid - current year	-	(740,474)
	6,176,688	4,738,967

PAYE and UIF

Current year subscription / fee	2,790,141	2,317,393
Amount paid - current year	(2,790,141)	(2,317,393)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	3,085,878	2,563,692
Amount paid - current year	(3,085,878)	(2,563,692)
	-	-

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	5,712,089	3,930,606
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VAT output payables and VAT input receivables are shown in note 9.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
JU Lottering	1,851	689	2,540
Y Kerneels	775	280	1,055
	2,626	969	3,595

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
P Mgcera	938	-	938
GP Mc Carthy	1,292	-	1,292
JU Lottering	2,383	13,562	15,945
A Adams	1,784	-	1,784
Y Kerneels	322	-	322
	6,719	13,562	20,281

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

46. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	637,552	1,865,761
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Reason for deviation	2016	2015
Sole Supplier of goods and services	227,808	271,681
Procurement that was deemed as being the most cost effective for the municipality.	-	71,431
Emergency procurement, based on the urgency and financial and health impact it might have in case of not procuring within a certain timeframe.	-	83,141
Acquisition of special works art/ specification	298,363	-
Exceptional case to follow SCM process	28,044	-
	554,215	426,253

Kgatelopele Local Municipality

Appendix A

June 2016

Schedule of external loans as at 30 June 2015

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Development Bank of South Africa							
Kgatelopele Municipality (NC086)	61006971	31/12/2016	1,865,761	-	1,228,209	637,552	-
			1,865,761	-	1,228,209	637,552	-
Total external loans							
Development Bank of South Africa			1,865,761	-	1,228,209	637,552	-
			1,865,761	-	1,228,209	637,552	-

June 2016

Cost/Revaluation

Graveyard Site	256,826	9,344	-	-	-	-	266,170	(88,986)	-	-	(15,372)	-	(104,358)	161,812
Recreational Facility	927,241	-	-	-	-	-	927,241	(382,321)	-	-	(59,120)	-	(441,441)	485,800
Sporting Facility	3,134,854	-	-	-	-	-	3,134,854	(1,033,144)	-	-	(147,693)	-	(1,180,837)	1,954,017
	4,318,921	9,344	-	-	-	-	4,328,265	(1,504,451)	-	-	(222,185)	-	(1,726,636)	2,601,629

June 2016

Analysis of property, plant and equipment as at 30 June 2016

Heritage assets

Heritage Site	875,000	-	-	-	-	-	875,000	-	-	-	-	-	-	875,000
Movable Assets	265,000	-	-	-	-	-	265,000	-	-	-	-	-	-	265,000
	1,140,000	-	-	-	-	-	1,140,000	-	-	-	-	-	-	1,140,000

Specialised vehicles

Other assets

Computer Equipment	621,237	259,957	-	-	-	-	881,194	(359,356)	-	-	(111,501)	-	(470,857)	410,337
Furniture and Fittings	674,618	125,674	-	-	-	-	800,292	(510,621)	-	-	(40,739)	-	(551,360)	248,932
Motor Vehicles	2,592,648	287,632	(3,500)	-	-	-	2,876,780	(2,069,015)	3,500	-	(172,589)	-	(2,238,104)	638,676
Office Equipment	707,675	4,620	-	-	-	-	712,295	(551,177)	-	-	(32,974)	-	(584,151)	128,144
Plan and Machinery	1,116,639	-	(30,000)	-	-	-	1,086,639	(1,105,454)	30,000	-	(3,725)	-	(1,079,179)	7,460
	5,712,817	677,883	(33,500)	-	-	-	6,357,200	(4,595,623)	33,500	-	(361,528)	-	(4,923,651)	1,433,549

June 2016

Analysis of property, plant and equipment as at 30 June 2016

Total property plant and equipment

Land and buildings	20,940,832	234,606	-	-	-	-	21,175,438	(4,142,981)	-	-	(616,451)	-	(4,759,432)	16,416,006
Infrastructure	269,307,785	12,590,241	(2,193,729)	-	-	-	279,704,297	(55,651,055)	878,735	-	(10,546,858)	-	(65,319,178)	214,385,119
Community Assets	4,318,921	9,344	-	-	-	-	4,328,265	(1,504,451)	-	-	(222,185)	-	(1,726,636)	2,601,629
Heritage assets	1,140,000	-	-	-	-	-	1,140,000	-	-	-	-	-	-	1,140,000
Other assets	5,712,817	677,883	(33,500)	-	-	-	6,357,200	(4,595,623)	33,500	-	(361,528)	-	(4,923,651)	1,433,549
	301,420,355	13,512,074	(2,227,229)	-	-	-	312,705,200	(65,894,110)	912,235	-	(11,747,022)	-	(76,728,897)	235,976,303

Housing Rental Stock / Inventory

Land	3,425,410	-	-	-	-	-	3,425,410	-	-	-	-	-	-	3,425,410
	3,425,410	-	-	-	-	-	3,425,410	-	-	-	-	-	-	3,425,410

Investment properties

Land	50,059,343	3,187,299	-	-	-	-	53,246,642	-	-	-	-	-	-	53,246,642
	50,059,343	3,187,299	-	-	-	-	53,246,642	-	-	-	-	-	-	53,246,642

Total

Land and buildings	20,940,832	234,606	-	-	-	-	21,175,438	(4,142,981)	-	-	(616,451)	-	(4,759,432)	16,416,006
Infrastructure	269,307,785	12,590,241	(2,193,729)	-	-	-	279,704,297	(55,651,055)	878,735	-	(10,546,858)	-	(65,319,178)	214,385,119
Community Assets	4,318,921	9,344	-	-	-	-	4,328,265	(1,504,451)	-	-	(222,185)	-	(1,726,636)	2,601,629
Heritage assets	1,140,000	-	-	-	-	-	1,140,000	-	-	-	-	-	-	1,140,000
Other assets	5,712,817	677,883	(33,500)	-	-	-	6,357,200	(4,595,623)	33,500	-	(361,528)	-	(4,923,651)	1,433,549
Housing Rental Stock / Inventory	3,425,410	-	-	-	-	-	3,425,410	-	-	-	-	-	-	3,425,410
Investment properties	50,059,343	3,187,299	-	-	-	-	53,246,642	-	-	-	-	-	-	53,246,642
	354,905,108	16,699,373	(2,227,229)	-	-	-	369,377,252	(65,894,110)	912,235	-	(11,747,022)	-	(76,728,897)	292,648,355

Analysis of property, plant and equipment as at 30 June 2011

Cost/Revaluation						Accumulated depreciation							
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Analysis of property, plant and equipment as at 30 June 2011

Cost/Revaluation						Accumulated depreciation							
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Analysis of property, plant and equipment as at 30 June 2011

Cost/Revaluation						Accumulated depreciation							
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand